

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

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ARIZONA CORPORATION COMMISSION

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EXECUTIVE SECRETARY

2001 APR 18 P 2:53

DATE: April 18, 2001

DOCKET NOS: W-01079A-00-0852

TO ALL PARTIES:

AZ CORP COMMISSION
DOCUMENT CONTROL
Arizona Corporation Commission

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SD

Enclosed please find the recommendation of Administrative Law Judge Jane Rodda.
The recommendation has been filed in the form of an Order on:

OATMAN WATER COMPANY
(RATES/FINANCING)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and ten (10) copies of the exceptions with the Commission's Docket Control at the address listed below by **12:00 noon** on or before:

APRIL 27, 2001

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Working Session and Open Meeting to be held on:

MAY1, 2001 AND MAY 2, 2001

For more information, you may contact Docket Control at (602)542-3477 or the Hearing Division at (602)542-4250.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 WILLIAM A. MUNDELL
3 CHAIRMAN
4 JIM IRVIN
5 COMMISSIONER
6 MARC SPITZER
7 COMMISSIONER

8 IN THE MATTER OF THE APPLICATIONS OF
9 OATMAN WATER COMPANY FOR FINANCING
10 APPROVAL AND FOR A PERMANENT RATE
11 INCREASE.

DOCKET NO. W-01079A-00-0852

DECISION NO. _____

ORDER

12 Open Meeting
13 May 1 and 2, 2001
14 Phoenix, Arizona

15 **BY THE COMMISSION:**

16 Having considered the entire record herein and being fully advised in the premises, the
17 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

18 **FINDINGS OF FACT**

- 19 1. On October 24, 2000, Oatman Water Company ("Oatman") filed with Commission a
20 joint application for finance and rate increase.
- 21 2. On November 22, 2000, Oatman filed amendments to its applications.
- 22 3. On November 24, 2000, Commission Utilities Division Staff ("Staff") filed its
23 sufficiency letter and classified Oatman as Class D utility.
- 24 4. On January 23, 2001, Oatman filed another amendment to its application.
- 25 5. On February 8, 2001, Staff filed its Staff Report recommending approval of the
26 applications without a hearing.
- 27 6. Oatman provides water utility service to approximately 140 customers in an area of
28 Mohave County, Arizona.
7. The Commission authorized Oatman's current permanent rates in Decision No. 53669
 (July 29, 1983).
8. In Decision Nos. 62772 (August 2, 2000) and 62953 (October 10, 2000), the
 Commission granted the Company an emergency interim surcharge totaling \$3.27 per 750 gallons,

1 to cover the cost of hauling water after the Company's well experienced a severe decline in pumping
2 capacity and became nearly inoperable. The emergency surcharge expires on July 31, 2001, or upon
3 further Order of the Commission, whichever comes first.

4 9. The Company mailed notice of its rate application and request for financing authority
5 to its customers on October 24, 2000. The Commission received 72 customer responses objecting to
6 the proposed rate increase.

7 10. Because of the high number of customer responses, Staff conducted a public
8 comment meeting in Oatman on January 10, 2001. At that meeting, customers primarily complained
9 about the chronic shortage of water and lack of water pressure. Customers also complained about
10 the poor quality of water.

11 11. Based on test year results for the year ended March 31, 2000, as adjusted by Staff,
12 Oatman realized an operating loss of \$6,508 on an Original Cost Rate Base ("OCRB") of \$5,574.

13 12. The Company proposed a revenue level of \$66,090¹ and operating income of \$19,648
14 for a 352.5 percent rate of return on adjusted OCRB.

15 13. Staff recommended a revenue level of \$68,840, resulting in an operating income of
16 \$15,782, for a 283.2 percent rate of return on OCRB.

17 14. Oatman is also requesting approval to borrow \$163,500 from the Water Infrastructure
18 Finance Authority of Arizona ("WIFA") for the purpose of making capital improvements to rectify
19 the current lack of pumping capacity.

20 15. Oatman's present and proposed rates and charges, as well as Staff's recommended
21 rates and charges are as follows:

22 ...

23 ...

24 ...

25 ...

26 ...

27

28 ¹ Although requesting a revenue level of \$66,090, the Company's proposed rates actually produce revenues of \$131,578.

	Present Rates	Proposed Company	Rates Staff	
1				
2	<u>MONTHLY USAGE CHARGE:</u>			
3	5/8" x 3/4" Meter	\$16.00	\$25.00	\$25.00
4	3/4" Meter	0.00	0.00	29.00
5	1" Meter	0.00	0.00	34.00
6	1 1/2" Meter	0.00	0.00	49.00
7	2" Meter	0.00	0.00	87.00
8	3" Meter	0.00	0.00	124.00
9	4" Meter	0.00	0.00	191.00
10	6" Meter	0.00	0.00	358.00
11				
12	Gallons included in minimum	750	1,000	0
13	Gallonage Charge – per 1,000 Gallons			
14	Excess of Minimum – per 750 Gallons	\$3.75	\$0.00	\$0.00
15	Excess of Minimum – per 1,000 Gallons	0.00	25.00	0.00
16	Excess of Minimum – 0 to 3,000 Gallons	0.00	0.00	4.95
17	Excess of Minimum – 3,001 to 9,000 Gallons	0.00	0.00	6.95
18	Excess of Minimum – over 9,000 Gallons	0.00	0.00	9.10
19				
20	<u>SERVICE LINE AND METER INSTALLATION CHARGES:</u>			
21	(Refundable pursuant to A.A.C. R14-2-40-5)			
22	5/8" x 3/4" Meter	\$100.00	\$0.00	\$375.00
23	3/4" Meter	120.00	0.00	435.00
24	1" Meter	160.00	0.00	510.00
25	1 1/2" Meter	300.00	0.00	740.00
26	2" Meter	400.00	0.00	1,300.00
27	3" Meter	0.00	0.00	1,855.00
28	4" Meter	0.00	0.00	2,870.00
29	6" Meter	0.00	0.00	5,375.00
30				
31	<u>SERVICE CHARGE:</u>			
32	Establishment	\$5.00	\$20.00	\$20.00
33	Establishment (After Hours)	0.00	0.00	30.00
34	Reconnection (Delinquent)	5.00	0.00	20.00
35	Meter Test (If Correct)	5.00	10.00	10.00
36	Deposit	0.00	50.00	*
37	Deposit Interest	0.00%	0.00%	*
38	Reestablishment (Within 12 Months)	25.00	50.00	**
39	NSF Check	0.00	20.00	20.00
40	Deferred Payment	0.00%	0.00%	0.00%
41	Meter Reread (If Correct)	2.50	5.00	5.00
42				
43				

1 * Per Commission rule A.A.C. R-14-2-403(B).

2 ** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

3 16. In its Staff Report, Staff made adjustments that increased rate base by \$81, from
4 \$5,493 to \$5,574. Staff's adjustments to rate base, as reflected in the Staff Report, are reasonable
5 and should be adopted. Consequently, Oatman's Fair Value Rate Base ("FVRB") is determined to
6 be \$5,574. The Company's FVRB is the same as its OCRB.

7 17. Staff's adjustments increased operating expenses by a net of \$4,247 to \$50,689.
8 Staff's adjustments include increasing Purchased Water expense by \$6,077 to reflect a three year
9 amortization of the Company's post-test year water hauling expenses through December 31, 2000.
10 The Company's total water hauling expenses of \$45,774, were reduced by the amount of the
11 emergency surcharge totaling \$15,827, and Staff amortized the net cost of \$29,947 over three years.
12 Staff's adjustments to operating revenues and expenses as reflected in the Staff Report are
13 reasonable and should be adopted.

14 18. The proceeds of the WIFA loan will be used to finance the installation of a 50,000
15 gallon storage tank; sandblasting, painting and tank accessories; burying 1,000 feet of water line;
16 installing a new 2,000 foot transmission line; drilling and equipping two wells; installing electrical
17 panels, and acquiring a water hauling truck.

18 19. Staff Engineering has reviewed the projects to be financed and found them and their
19 projected costs to be reasonable and necessary.

20 20. Staff believes the capital projects outlined in the financing application are necessary
21 to maintain minimum Arizona Department of Environmental Quality ("ADEQ") requirements and
22 are in the public interest. Staff recommends approval of the financing request.

23 21. Based on test year results, adjusted for the proposed long term loan, Staff's
24 recommended revenue provides a Times Interest Earned Ratio ("TIER") of 2.74 and a Debt Service
25 Coverage ("DSC") ratio of 1.25.

26 22. During the test year, the Company's customers had an average usage of 3,305 gallons
27 and a median usage of 1,716 gallons.

28 23. The Company's proposed rates would increase the median 5/8 inch meter monthly

1 bill by 106 percent, from \$20.83 to \$42.91, and the average 5/8 inch meter bill by 186.9 percent,
2 from \$28.79 to \$82.61.

3 24. Staff's recommended rates would increase the median 5/8 inch meter monthly bill by
4 60.8 percent, from \$20.83 to \$33.55 and the average 5/8 inch meter monthly bill by 45.8 percent,
5 from \$28.79 to \$41.97.

6 25. Staff recommends that its proposed rates and charges be approved without a hearing.

7 26. As a result of an inspection and compliance status review, ADEQ issued "Notices Of
8 Violation" to Oatman in April and August 1999. The major non-compliance problems were
9 monitoring deficiencies, construction and operation problems with the main storage tank and
10 exposed water mains. The main storage tank is an old riveted tank that is well beyond its economic
11 life. In September 2000, ADEQ and Oatman entered into a consent agreement which mandates the
12 Company correct the deficiencies. Pursuant to the consent agreement, the Company is seeking funds
13 from WIFA. In December 2000, ADEQ reported to the Commission that Oatman is providing water
14 that does not exceed any maximum contaminant levels and meets the quality standards of the Safe
15 Drinking Water Act. Oatman is hauling water from a ADEQ-approved source.

16 27. The Company is current on all property and sales taxes.

17 28. Staff further recommends that:

18 (a) Oatman file a copy of all executed loan documents with the Commission as they
19 become available;

20 (b) The rates approved herein be interim until such time as the Company builds the
21 plant and executes the loan. The rates should not become permanent until such
22 time as the Company files documentation to confirm completion of all facilities
23 described in the financing request and files a copy of the ADEQ Approval of
24 Construction. If the Approval of Construction is not filed with the Compliance
25 Section of the Utilities Division by June 30, 2002, the interim rates shall terminate
26 without further action of the Commission and all interim rates collected to that
27 point shall be refunded in a manner to be determined by the Commission at that
28 time; and

1 (c) In addition to the collection of its regular rates and charges, the Company shall
2 collect from its customers their proportionate share of any Privilege, Sales or Use
3 Tax where appropriate, as provided for I A.A.C. R14-2-608.D.3.
4

5 29. The outcome of the permanent rate case indicates that the interim surcharge
6 authorized in Decision Nos. 62772 and 62953, was fully justified, and with the permanent rates
7 granted herein, no longer necessary.

8 CONCLUSIONS OF LAW

9 1. Oatman is a public service corporation within the meaning of Article XV of the Arizona
10 Constitution and A.R.S. §§40-250, 40-251, 40-301 and 40-302.

11 2. The Commission has jurisdiction over Oatman and of the subject matter of the
12 application.

13 3. Notice of the application was provided in the manner prescribed by law.

14 4. The rates and charges authorized herein are just and reasonable and should be approved
15 without a hearing.

16 5. The financing approved herein is for lawful purposes within Oatman's corporate powers,
17 is compatible with the public interest, with sound financial practices, and with the proper
18 performance by Oatman of service as a public service corporation, and will not impair Oatman's
19 ability to perform that service.

20 6. The financing approved herein is for the purposes stated in the application and is
21 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
22 chargeable to operating expenses or to income.

23 7. The recommendations set forth in Findings of Fact Nos. 25 and 28 are reasonable and
24 should be adopted.

25 8. The interim surcharge granted to Oatman in Decision Nos. 62772 and 62953 was
26 justified and any refund obligation thereunder should be discharged.

27 ORDER

28 IT IS THEREFORE ORDERED that Oatman Water Company shall file on or before May 31,

2001, the following schedule of rates and charges:

MONTHLY USAGE CHARGE:

5/8" x 3/4" Meter	\$25.00
3/4" Meter	29.00
1" Meter	34.00
1 1/2" Meter	49.00
2" Meter	87.00
3" Meter	124.00
4" Meter	191.00
6" Meter	358.00

COMMODITY CHARGE

(Per 1,000 gallons)

0 to 3,000 Gallons	4.95
3,001 to 9,000 Gallons	6.95
Over 9,000 Gallons	9.10

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-40-5)

5/8" x 3/4" Meter	\$375.00
3/4" Meter	435.00
1" Meter	510.00
1 1/2" Meter	740.00
2" Meter	1,300.00
3" Meter	1,855.00
4" Meter	2,870.00
6" Meter	5,375.00

SERVICE CHARGE:

Establishment	\$20.00
Establishment (After Hours)	30.00
Reconnection (Delinquent)	20.00
Meter Test (If Correct)	10.00
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	20.00
Deferred Payment	0.00%
Meter Reread (If Correct)	5.00

* Per Commission rule A.A.C. R-14-2-403(B).

** Months off system times the monthly minimum per Commission rule A.A.C. R14-2-403(D).

1 IT IS FURTHER ORDERED that the above rates and charges shall be effective for all service
2 provided on and after June 1, 2001.

3 IT IS FURTHER ORDERED that the interim surcharge approved in Decision Nos. 62772 and
4 62953 shall terminate on May 31, 2001.

5 IT IS FURTHER ORDERED that the increased rates approved herein shall be interim and
6 subject to refund until such time as Oatman Water Company files a copy of its Approval of
7 Construction with the Compliance Section of the Utilities Division to confirm completion of all
8 facilities described in the financing request.

9 IT IS FURTHER ORDERED that if the Approval of Construction is not filed with the
10 Compliance Section of the Utilities Division by June 30, 2002, the interim rates shall terminate
11 without further action of the Commission and all interim rates collected to that point shall be
12 refunded in a manner to be determined by the Commission at that time.

13 IT IS FURTHER ORDERED that Oatman Water Company is hereby authorized to borrow up
14 to \$163,500 from the Water Infrastructure Finance Authority of Arizona for a term 20 years, and
15 upon such other terms and conditions as WIFA may require at the time it approves the loan.

16 IT IS FURTHER ORDERED that Oatman Water Company is hereby authorized to engage in
17 any transactions and to execute any documents necessary to effectuate the authorization granted
18 hereinabove.

19 IT IS FURTHER ORDERED that such authority is expressly contingent upon Oatman Water
20 Company's use of the proceeds for the purposes set forth in its application.

21 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
22 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
23 proceeds derived thereby for purposes of establishing just and reasonable rates.

24 IT IS FURTHER ORDERED that Oatman Water Company shall file copies of all executed
25 financing documents setting forth the terms of the financing, as soon as practicable after they become
26 available.

27 IT IS FURTHER ORDERED that Oatman Water Company shall notify its customers of the
28 rates and charges authorized herein and the effective date of same by means of an insert in its next

regular monthly billing.

IT IS FURHTER ORDERED that in addition to the collection of its regular rates and charges, Oatman Water Company shall collect from its customers their proportionate share of any Privilege, Sales or Use Tax where appropriate, as provided for I A.A.C. R14-2-608.D.3.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____, 2001.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____
JR:dap

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